



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE  
GOVERNOR

September 30, 2009

The Honorable Calvin K. Y. Say  
Speaker of the House of Representatives  
Twenty-Fifth State Legislature  
State Capitol  
Honolulu, Hawai'i 96813

Aloha Mr. Speaker,

I would like to inform you that we recently discovered a recording error regarding general fund tax collections in Fiscal Years 2008 and 2009. The correction of this error resulted in changing the FY 09 general fund balance on a budgetary basis from a projected positive \$8.0 million to an actual minus \$36.8 million.

The attached public statement provides the explanation for the error. This statement is also being presented to the HGEA Collective Bargaining Arbitration Panel, Bond Counsel and Bond Rating Agencies to fulfill our obligation for disclosure regarding this matter.

Please contact Georgina Kawamura at 586-1518 if you have any questions.

Sincerely,

LINDA LINGLE

Attachment

c: Honorable Georgina K. Kawamura



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GOVERNOR

September 30, 2009

The Honorable Colleen Hanabusa  
President of the Senate  
Twenty-Fifth State Legislature  
State Capitol  
Honolulu, Hawai'i 96813

Aloha Madam President,

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## STATEMENT ON A RECORDING ERROR AFFECTING THE GENERAL FUND BALANCE FOR FISCAL YEAR 2008-09

### The error

On September 29, 2009, it was determined that there was an overstatement of general fund revenues for the fiscal year ending on June 30, 2009 (FY 09). Actual general fund revenues were found to be \$44 million below the amount reported by the State's Financial and Accounting Management Information System (FAMIS). A similar overstatement of \$800,000 also occurred in FY 08. These discrepancies change the FY 09 general fund balance on a budgetary basis from a projected positive \$8.0 million to an actual minus \$36.8 million and put the General Fund in a deficit condition as of June 30, 2009.

### How did it happen?

The discrepancies were due to an error in the recording of tax revenues collected in FY 08 and FY 09.

Tax collections were reported by the Department of Taxation in its "Statement of Tax Operations." For FY 09, \$44 million was collected as a result of the Delinquent Tax Project. **This amount was incorrectly recorded when the Department of Accounting and General Services prepared its FAMIS reports.** A similar error of \$800,000 also occurred for FY 08.

The recording discrepancy was noticed when the Department of Budget and Finance reconciled actual year-end FAMIS numbers with tax revenue projections submitted by the Council on Revenues in August 2009. As a result of a joint review by the Departments of Taxation, Accounting and General Services, and Budget and Finance, the source of the discrepancy was identified and the errors were corrected.

### Impact on the State's financial condition

There was great concern over declining general fund revenues in the course of FY 09 due to the economic recession. The Administration took prudent action throughout the year to control and reduce expenditures through various measures to control the budget. As the end of FY 09 approached, efforts were intensified to limit spending to the most essential requirements for health and safety purposes. This cautionary policy was necessary to ensure that general fund expenditures stay within the limit of general fund revenues.

With the recent discovery of the accounting error, general fund revenues of the State are set back by an additional \$44.8 million, and the need for solutions to close the budget gap becomes more urgent than ever. The Administration is committed to continue working toward this goal.